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FILE

DEPARTMENT OF STATE
FROM
DATE

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DEPARTMENT OF STATE
INCOMING TELEGRAM
DEPT FOR ... J.M. Raz 5/6/82
TOSEC
INFO
...
DA ...

May 10, 1982

Dear Allan:

The suggestion in your letter of June 15 concerning the possible use of an International Monetary Fund advisor in Libya has favorable features and we are examining the matter.

The primary role of an IMF advisor would be to provide Libya with advice concerning the broad range of policy issues stemming from the large and growing foreign exchange surplus. Advice on the problems of best investment or utilization of these funds would be part of his function which would cover various aspects of central banking. These functions would have to be carefully separated from a determination of the use of funds for development within Libya which is the function of the IBRD advisor.

There appear to be two aspects to approaching the problem. The first could involve a policy study giving broad guidance as to how funds may be invested to Libya's best advantage. In this connection, a determination could be made as to the margin of productivity of investing money within Libya for economic development as opposed to investing funds elsewhere with the income used for economic betterment of the country. Such a study could be made by a university or by an international institution.

The other aspect would be an advisory function in the Central Banking field and would include advice on the recurrent decisions as to how funds are to be managed at any given time. We understand informally that if requested by the Libyan Government the IMF might give favorable consideration to providing an advisor who could assist in dealing with the broad policy issues of the Libyan economy stemming from the large and growing foreign exchange surplus, particularly those relating to Central Bank instruments of policy.

AID (US) 1-11-84

Also 7-8-64

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AFN
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TREASURY

The Honorable
Allan E. Lightner, Jr.,
American Embassy,
Baida.

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Also to be noted is the possibility that an advisory board could be set up to assume these functions as is the case in Kuwait.

Although the prospect that the IMF could play a real role in Libya appears to have merit, we are not sure as to the tactics for putting this idea across to the Libyans. With the current Wheelus negotiations, the question can be posed whether it is now propitious for us to make such a suggestion. The matter of how the idea might be advanced to the Libyan Government without arousing suspicions concerning our motivations could perhaps be explored by Henry Heuser as a first order of business after he arrives.

We will be following your messages concerning this matter with interest.

With best regards.

Sincerely,

/S/ Averell Harriman

W. Averell Harriman

AF:AFI:WKling:ddl
7/8/64

AFN - Mr. McClanahan
AF - Mr. Westerfield
E - Mr. Ely (subs.)
Treasury- Mr. Zagorin (subs.)
AID - Mr. Hinman
IMF - Mr. Dale (subs.

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With regard to the Embassy's capabilities to become more effective in this area, I have been very pleased with the steps that are being taken now to bolster our economic staffing. I understand plans are afoot to put in a senior AID officer who would also be my Counselor for Economic Affairs. This is what we need and I want to express my appreciation to you and others who may have given their support to this beefing-up of our organization.

Sincerely yours,

E. Allan Lightner, Jr.

cc: Governor Williams

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THE FOREIGN SERVICE
OF THE
UNITED STATES OF AMERICA

CONFIDENTIAL

American Embassy,
Tripoli, Libya,
June 15, 1964

Dear Governor Harriman:

Knowing of your interest in the problem of providing high level advice to assist Libya in its economic development, I am pursuing a suggestion you made during your visit last April 1 that I write you directly.

Aside from the problems which require continuation of technical assistance through contract personnel, through our limited AID programming and the planned institutional-oil company project, Libya is confronted with having excess cash resources on a large scale. The Libyans have not got around to figuring out how to handle this situation. Technical assistance experts cannot be of much help in this policy area. Nor does it seems to be politically feasible for the U.S. Embassy (or any other national representative) to offer to tell the Libyans how to spend their own money.

The new Libyans - and they are the articulate ones - are now concentrating their attacks on foreign advisers in the government (particularly the British advisers). These advisers are operators who for years have filled positions in the government; actually they have planned and managed virtually all of Libya's finances. (The Libyans are still receptive to foreign advisers in more subordinate roles, such as those of our contract technicians who work under Libyan office directors.) Furthermore, since Wheelus Air Base has become so controversial among the Libyans, direct American efforts to advise the GOL are all the more suspect.

We described Libyan attitudes (and the attitudes of the British advisers) toward the management of Libya's large and growing cash resources in our A-363, A-374 and A-401. In A-401, our final recommendation was that the Department consult with the IMF to elicit its interest in offering advisory services. As explained in this airgram, the new advisory services function of the IMF seems admirably tailored to Libya's immediate and long-term needs. Libya has currently some L£63 million in foreign exchange or gold reserves with less than L£21 million in circulation. It is quite certain to have from L£15 to

The Honorable
W. Averell Harriman,
Under Secretary of State for Political Affairs,
Department of State,
Washington DC.

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L£20 million left unspent from this fiscal year's development budget alone. This is recognized by the GOL Administrators concerned, by the U.K. advisers and by IBRD Adviser Dhar. However, these few officials are fully occupied with trying to implement this year's budget. They simply cannot focus on the bigger problem at this time and there is no desire, insofar as either the Libyans in Planning and Development or the U.K. Advisers in Finance are concerned, to have yet another survey made of Libya's problems. Thus, Dhar and we at the Embassy conclude that the IMF uniquely could assess the situation, raise questions about financial management without the appearance of political intervention, and in time suggest proper or better management methods.

The IMF, for example, might conclude that an external investment program is of major importance and it might suggest a board of advisers or governors of international standing such as that used by Kuwait. It might recommend and expand internal lending and mortgage plans to get these huge cash funds out of the public coffers into private investment - agriculture, small industry, house ownership, etc. It might recommend buying more gold for long-term currency backing. Whatever the suggestions, both they and the method of making them are a matter of extreme delicacy and will require a thorough understanding of the Libyan political scene right down to the personalities involved in current administration, and on to the Parliamentarians who ultimately would have to approve any change in the existing legislation which calls for 70% of all oil revenues to be spent on development.

We had previously recommended in A-374 that both the IBRD and IMF be encouraged to act, but IBRD representative Dhar in Tripoli has in the meantime found nothing but resistance locally to his suggestion that the IBRD be asked to up-date its 1960 survey on the economic development of Libya. We have not probed further in this area but suggest that the IMF could in time make an appropriate recommendation about development distinct from financial management. Of course, the first trick will be to get the IMF to devise the means to wake up the GOL as to the nature and extent of the problem.

Mr. Dhar believes that the key man to do this is the Deputy Governor of the IMF. It, therefore, occured to me that you or Governor Williams might be willing to mention this problem to the Deputy Governor (or others concerned) when you have an opportunity. The active interest of IMF could make a real contribution here and, indeed, to this whole region.

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